

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Application of)	
)	
Verizon Hawaii Inc., Bell Atlantic Communications,)	
Inc. (d/b/a Verizon Long Distance) and Verizon)	
Select Services Inc.,)	
)	
Transferors,)	
)	
and)	WC Docket 04-234
)	
Paradise MergerSub, Inc.)	
)	
Transferee,)	
)	
For Consent to Transfer Control of Verizon Hawaii)	
Inc. and Certain Assets and Long Distance Customer)	
Relationships Related to Interstate Interexchange)	
Telecommunications Service in the State of Hawaii)	
)	

REPLY TO OPPOSITION TO PETITION FOR RECONSIDERATION

Pacific LightNet, Inc. (Pacific LightNet) hereby replies to the September 29, 2004 Opposition to Petition for Reconsideration filed by Verizon Hawaii, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) and Verizon Select Services, Inc. (collectively Verizon Hawaii) and Paradise MergerSub, Inc., a holding company wholly-owned by investment funds associated with The Carlyle Group (collectively Carlyle).

Pacific LightNet's concern that Carlyle should be required to provide more detailed plans concerning its development and transition to an independent back-office system relates directly to Carlyle's representation—as relied on by the Commission—that

Carlyle will not raise rates in Hawaii.¹ Carlyle has simply not disclosed sufficient information concerning a critical commitment that it will somehow re-create a back office within the nine-month transition period—without incurring costs that will lead to rate increases, whether for wholesale customers like PLNI or Carlyle’s own retail customers. And Carlyle itself continues to cast doubt on its professed commitment as it relates to holding the line on rates.

That is, in responding to information requests posed by Hawaii’s Consumer Advocate, Carlyle expressly reserved the right to seek future rate increases to recover costs relating to re-establishing the back-office in Hawaii.² Indeed, notwithstanding its prior public pronouncements that it would not raise rates,³ Carlyle has been consistently

¹ See page 2, *Streamlined Domestic Section 214 Application Granted*, WC Docket No. 04-234, DA 04-2541 (rel. August 17, 2004), stating that “[w]e rely on the Applicants’ representations that they have a reasonable plan for developing and transitioning to independent back-office systems without ‘reduction, impairment or discontinuance of service to any customer’ and without ‘rais[ing] rates as it transitions...to new ownership and new back-office systems.’”

² See, at page 31, [http://www.state.hi.us/budget/puc/dockets/04-0140_Applicants\(redacted\)_2004-09-14.pdf](http://www.state.hi.us/budget/puc/dockets/04-0140_Applicants(redacted)_2004-09-14.pdf), Carlyle’s September 14, 2004, Responses to the Consumer Advocate’s Third Submission of Information Requests (Redacted) at CA-IR-109, which states:

“The Response to CA-IR-34 states that the ‘Transaction and transition expenses incurred will be recoverable only to the extent permissible.’ The Application reflects a commitment that ‘neither TelCo Hawaii nor AssetCo will seek rate recovery of any transaction or transition costs (but excluding capital costs relating to re-establishing the back office functions in Hawaii) or an amortization of such costs.’

a. Please explain the revised position reflected in the response to CA-IR-34, which appears to be contradictory to the commitment made in the Application.

Response: Carlyle does not intend to seek recovery of any transaction expenses. However, as noted earlier, there may be categories of costs, capital or expenses incurred by TelCo Hawaii that have utility beyond the transaction per se. To the extent the Commission recognizes the benefits conferred to the customers and permits some or all of such costs, capital or expenses to be considered for recovery in some future rate case, Carlyle preserves the option to seek recovery, to the extent permissible, of what might have otherwise been generally categorized as transition costs or expenses merely because of the timing of the activity. For example, certain costs or expenses related to re-establishing the back office functions in Hawaii might be reviewed in this manner, e.g., purchase of servers and other data systems and associated software.”

³ See, for a typical pronouncement, <http://www.thecarlylegroup.com/eng/news/15-news2792.html>, which quotes the Commission’s former Chairman and now Carlyle Managing Director, **William E. Kennard**, as follows: “We are excited about the opportunity to serve the people of Hawaii as the new owners of Hawaii’s telephone company. In short order we will offer new services to our customers, including expanded

back-pedaling this material representation to the point where its supposed commitment has been now reduced to the mere “expectation” that Carlyle will not raise rates.⁴

In its Opposition, Carlyle cites to its Reply Comments as providing additional information about its back-office transition plans. As Pacific LightNet explained in its Petition for Reconsideration, Carlyle’s meager attempts to pacify Pacific LightNet’s concerns about the feasibility of its plans simply fail for lack of specificity. It is not enough to point out that Carlyle has finally gotten around to hiring a back-office vendor. And nine months, on its face, should be regarded as an insufficient timeframe to establish, from the ground up, an advanced-technology back-office that will economically support an incumbent state-wide local telephone network on the scale of Verizon Hawaii.

Carlyle’s application offered few commitments and assurances to begin with. However, having convinced this Commission to grant streamlined approval based on bare representations, Carlyle has watered down a key commitment, such that it is now meaningless. To the extent the Commission relied on Carlyle’s commitment not to raise rates, that commitment no longer stands and can no longer support the Commission’s granting of streamlined approval. Carlyle’s bare representations have, in essence, evolved into nuance and equivocation, which, coupled with the significance of the

broadband, and we expect to add many new jobs after the acquisition. Importantly, *rates will stay the same as we reposition the business* as a true local company befitting its local heritage” (emphasis added)

⁴ See, as but one example, Carlyle’s own website at <http://www.askcarlyle.com/faqs.htm>, which states:

Did Carlyle really promise not to raise rates for ten years?

The business plan we submitted to the PUC *assumes* that we can meet our objectives for the business without raising rates over the next ten years. While this is not a guarantee, *it is certainly our expectation. Verizon has not guaranteed that it will not raise rates in Hawaii, either.* (emphasis added)

proposed transaction to the State of Hawaii, warrants removing the Applicants' proposed transaction from the Commission's streamlined docket.

CONCLUSION

Based on the foregoing, Pacific LightNet respectfully requests that the Commission reconsider its order granting the Applicants' streamlined domestic Section 214 application, and remove Carlyle's application to a non-streamlined docket.

Dated: October 6, 2004

Respectfully submitted,

PACIFIC LIGHTNET, INC.

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Certificate of Service

I hereby certify that a true and correct copy of the foregoing Pacific LightNet, Inc.'s Petition For Reconsideration was served this 6th day of October, 2004, upon the following:

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